



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

<b>Bill #</b>	HB0746	<b>Title:</b>	Allow tax credit for capital construction donations to tax-exempt organizations
<b>Primary Sponsor:</b>	Erickson, Ron	<b>Status:</b>	As Amended in House Committee

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b>Expenditures:</b>				
General Fund	\$41,461	\$33,509	\$34,347	\$35,205
<b>Revenue:</b>				
General Fund	(\$5,205,430)	(\$5,337,587)	(\$5,460,717)	(\$5,586,810)
<b>Net Impact-General Fund Balance</b>	<u>(\$5,246,891)</u>	<u>(\$5,371,096)</u>	<u>(\$5,495,064)</u>	<u>(\$5,622,015)</u>

**Description of fiscal impact:** This legislation would create a tax credit equal to 12% of charitable gifts to capital building campaigns for both individuals and corporations.

### FISCAL ANALYSIS

#### Assumptions:

1. This legislation creates a tax credit equal to 12% of charitable donations to capital building campaigns. The credit is limited to \$10,000. During 2005, 169,449 Montana taxpayers reported charitable deductions equal to \$532,022,411. Industry sources have indicated that approximately 20% of these charitable contributions have gone to capital construction campaigns. Therefore, this credit could be claimed on \$106.404 million of donations (\$532.022 million \* 20%).
2. The proposed credit is equal to 12% of the gift amount, up to a maximum of \$3,000 for individuals and \$10,000 for corporations and pass-through entities. Based on the 169,449 Montanans claiming the deduction, the estimated credit that would have been claimed had this credit been in place during 2005 would be \$10,319,917.

3. The charitable gift used to claim the credit cannot be used to claim a deduction, resulting in an offset to the cost of this credit. Based on the 169,449 taxpayers, the estimated offset amount would be \$5,208,800 in 2005.
4. The proposed credit is nonrefundable. On average, 93% of nonrefundable individual income tax credits are used to decrease tax liability. The amount of the credit that would have been used to decrease tax liability in 2005 is \$4,753,339  $((\$10,319,917 - \$5,208,800) * 93\%)$ .
5. Growing this amount by the charitable contribution growth assumption used in the HJR 2 revenues estimates, the estimated credit claimed would be \$5,072,601 in tax year 2007, \$5,197,894 in tax year 2008, \$5,313,807 in tax year 2009, and \$5,432,305 in tax year 2010.
6. Similar information is not collected from Montana corporate income tax forms. Therefore, this fiscal note assumes that the cost of the proposed credit for capital building donations will be similar to the cost of the current charitable endowment credit. The charitable endowment credit for corporations is estimated by DOR to cost \$132,829 in tax year 2007, \$139,693 in tax year 2008, \$146,910 in tax year 2009, and \$154,505 in tax year 2010.
7. The total reduction to general fund revenue is estimated to be in \$5,205,430 in tax year 2007  $(\$5,072,601 + \$132,829)$ , \$5,337,587 in tax year 2008  $(\$5,197,894 + \$139,693)$ , \$5,460,717 in tax year 2009  $(\$5,313,807 + \$146,910)$ , and \$5,586,810 in tax year 2010  $(\$5,432,305 + \$154,505)$ . Credits for a tax year would be claimed on tax returns filed on the following spring. Credits for a tax year will reduce revenue in the next higher numbered fiscal year.
8. The Department of Revenue would require \$2,500 to create a new form for this credit in FY 2008. Further, this credit requires 1 FTE to ensure the credit is being taken on eligible contributions. The total administrative costs are \$41,461 in FY 2008, \$33,509 in FY 2009, \$34,347 in FY 2010, and \$35,205 in FY 2011.

	<b><u>FY 2008</u></b> <b><u>Difference</u></b>	<b><u>FY 2009</u></b> <b><u>Difference</u></b>	<b><u>FY 2010</u></b> <b><u>Difference</u></b>	<b><u>FY 2011</u></b> <b><u>Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b>FTE</b>	1.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services	\$27,663	\$27,663	\$28,355	\$29,063
Operating Expenses	\$7,898	\$5,846	\$5,992	\$6,142
Equipment	\$5,900	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b><u>\$41,461</u></b>	<b><u>\$33,509</u></b>	<b><u>\$34,347</u></b>	<b><u>\$35,205</u></b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$41,461	\$33,509	\$34,347	\$35,205
<b>TOTAL Funding of Exp.</b>	<b><u>\$41,461</u></b>	<b><u>\$33,509</u></b>	<b><u>\$34,347</u></b>	<b><u>\$35,205</u></b>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$5,205,430)	(\$5,337,587)	(\$5,460,717)	(\$5,586,810)
<b>TOTAL Revenues</b>	<b><u>(\$5,205,430)</u></b>	<b><u>(\$5,337,587)</u></b>	<b><u>(\$5,460,717)</u></b>	<b><u>(\$5,586,810)</u></b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$5,246,891)	(\$5,371,096)	(\$5,495,064)	(\$5,622,015)

**Long-Range Impacts:**

1. The proposed legislation would continue to have negative fiscal impact in future years not covered by this note.

**Technical Notes:**

1. Section 1 uses the term “charitable value,” which is not defined. The charitable endowment credit uses the term of present value of the charitable portion of the gift because it refers to planned gifts. This legislation allows the credit on outright gifts and makes no mention of planned gifts.
2. More clarification as to what qualifies as a capital construction contribution would be helpful in the administration of the credit.
3. The proposed legislation would allow individuals who are a member of a pass-through entity to claim a maximum credit of \$10,000 on their individual income tax returns, whereas other individuals may only claim a credit of \$3,000. Although the Department has the ability to check on all individual returns claiming a credit over \$3,000 to ensure the taxpayer is a member of a pass-through entity claiming the credit, the different limits between pass-through entities and individuals does create some confusion and makes administration of the credit more difficult.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*